

Message Text

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ACTION ARA-14

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E.O. 11652: N/A
TAGS: ECON ELAB SHUM CI
SUBJECT: GOC MOUNTS ATTACK ON UNEMPLOYMENT

1. SUMMARY. SIMULTANEOUSLY WITH THE INCREASE OF CIVILIANS IN CABINET, AMNESTY AND OTHER MEASURES DESIGNED TO IMPROVE CHILE'S INTERNATIONAL IMAGE, THE GOC HAS ANNOUNCED PROPOSALS DESIGNED TO AMELIORATE CHILE'S PERSISTENT UNEMPLOYMENT. SEVERAL OF THE MEASURES PROPOSED, HOWEVER, SUCH AS ELIMINATION OF MINIMUM WAGE REQUIREMENTS IN CERTAIN CASES, AND OF JOB PROTECTION, ARE REGARDED BY FREE LABOR UNIONS AS ATTACKS ON TRADITIONAL PROTECTIONS FOR THE WORKER. THE GOC FOR ITS PART PERCEIVES A TRADEOFF, SACRIFICING PROTECTIONS FOR WORKERS

WITH JOBS IN ORDER TO INCREASE THE NUMBER OF JOBS FOR THE MANY WITHOUT EMPLOYMENT. END SUMMARY.

2. THE SUCCESS OF CHILE'S ECONOMIC MANAGERS IN BRINGING INFLATION
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DOWN TOWARDS HISTORIC LEVELS, AND IN ELIMINATING THE FOREIGN SECTOR DEFICIT, HAS SO FAR NOT BEEN MATCHED BY EQUAL SUCCESS IN REDUCING UNEMPLOYMENT. ALTHOUGH THEY HAVE LONG RECOGNIZED THE SOCIAL AND POLITICAL PROBLEMS THAT MIGHT ARISE FROM AN UNEMPLOYMENT RATE PER- SISTENTLY MORE THAN 13 PERCENT OVER THE PAST THREE YEARS, CHILE'S TECHNOCRATS HAD PLANNED TO POSTPONE ITS SOLUTION AT LEAST UNTIL 1979, WHEN THEIR HIGHER PRIORITIES OF STABILIZING PRICES AND OF

REORDERING THE ECONOMY WOULD BE FURTHER ALONG.

3. THE HIGH RATE OF UNEMPLOYMENT AND RELATED SOCIAL COSTS, LONG A TARGET OF CRITICISM BY THE OPPOSITION IN AND OUT OF CHILE, HAS NOT SAT ANY BETTER WITH MANY OF CHILE'S MILITARY. EVEN SOME CONSERVATIVE ECONOMISTS HAVE BEGUN TO ASK HOW LONG AN ATTACK ON UNEMPLOYMENT COULD BE DELAYED. THE TIMING OF THE ORDER OF APRIL 18 FROM PRESIDENT PINOCHET TO THE ECONOMIC TEAM, AND SPECIFICALLY TO ODEPLAN, THE NATIONAL PLANNING OFFICE, TO FIND A PRACTICAL SOLUTION WITHIN 40 DAYS APPEARS RELATED, TO THE INCREASE OF CIVILIANS IN CABINET, THE AMNESTY, AND OTHER MEASURES, SEPARATELY REPORTED, TO IMPROVE CHILE'S REALITY AND IMAGE IN A NUMBER OF VULNERABLE AREAS.

4. THE MEASURES DESCRIBED BELOW WERE PREPARED BY ODEPLAN TWO MONTHS AGO, AND DISCUSSED IN DETAIL WITH PRESIDENT PINOCHET SOON THEREAFTER. THEY REFLECT GOALS PUBLISHED IN SEPTEMBER 1977. IN SHORT, IF THE TIMING WAS POLITICALLY INSPIRED, THE MEASURES REPRESENT CONSIDERABLE AND WELL CONSIDERED WORK BY GOC PLANNERS OVER SOME TIME. THE PURPOSE IS TO ELIMINATE EXISTING DISTORTIONS AND INFLEXIBILITIES IN THE LABOR MARKET. THE GOAL IS TO PROMOTE THE USE OF LABOR, WHICH, IN CHILE, IS THE RELATIVELY ABUNDANT PRODUCTIVE FACTOR, AS AGAINST THE USE OF CAPITAL. THE VERY OPPOSITE HAS BEEN THE CASE, THE COSTS INDIRECTLY RESULTING FROM MEASURES TO PROTECT LABOR HAVING PERVERSELY STIMULATED THE SUBSTITUTION OF MACHINERY FOR MEN.

5. IN ORDER TO RESTORE GREATER FLEXIBILITY TO THE LABOR SECTOR,
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ODEPLAN PROPOSES, AMONG OTHER MEASURES, THE ELIMINATION OF THE MINIMUM WAGE FOR CERTAIN AGE GROUPS, AS WELL AS THE LAW OF JOB PROTECTION (INAMOVILIDAD). THE PROSPECT THAT THESE LABOR RIGHTS WOULD BE ELIMINATED HAS BEEN A SOURCE OF CONSIDERABLE CONCERN AMONG ORGANIZED LABOR. LABOR ARGUES THAT THE OUTCOME WOULD BE SCARCELY MORE THAN A GIFT TO CAPITAL, SINCE THERE IS NO GUARANTEED TRANSFER MECHANISM WHEREBY SAVINGS LIKELY TO ACCRUE TO EMPLOYERS FROM THESE MEASURES WILL RESULT IN EMPLOYMENT FOR MORE PEOPLE. MANAGEMENT MAY WELL END UP WITH MORE POWER TO DETERMINE WAGES ARBITRARILY. SINCE THESE MEASURES HAVE NOT BEEN ACCOMPANIED BY THE RESTORATION OF THE RIGHT TO BARGAIN COLLECTIVELY OR OTHER TRADE UNION RIGHTS, ABUSES MAY OCCUR. MORE SIGNIFICANTLY FROM THE POINT OF VIEW OF CHILE'S INTERNATIONAL IMAGE, THE COMPLAINTS OF CHILEAN ORGANIZED

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LABOR WITH ITS WORLD-WIDE CONSTITUENCY MAY BE GIVEN GREATER RECOGNITION THAN ANY WELFARE WHICH MAY ACCRUE THROUGH THESE MEASURES TO CHILE'S MANY UNEMPLOYED. CHIEF AMONG THESE MEASURES ARE:

6. SOCIAL SECURITY EMPLOYER CONTRIBUTIONS. THESE RUN AT PRESENT AT AN AVERAGE LEVEL OF 40 PERCENT OF THE SALARY PAID, WHICH RAISES THE COST OF HIRING LABOR AND ACCORDINGLY, PROMOTES THE SUBSTITUTION OF CAPITAL FOR LABOR. ODEPLAN BELIEVES THAT 10 PERCENTAGE POINT DECREASE IN THESE CONTRIBUTIONS WOULD GENERATE IN A PERIOD OF 12 TO 18 MONTHS AN 8 PERCENT INCREASE IN EMPLOYMENT. THE GOAL, HOWEVER, IS TO BRING TO EMPLOYER CONTRIBUTIONS, OVER FOUR YEARS, TO ZERO. THEY WOULD BE REPLACED BY A SET OF MEASURES, THE CHIEF OF WHICH BEING THE FINANCING OF THE GREATER PART OF THE SYSTEM THROUGH THE PUBLIC SECTOR BUDGET COMBINED WITH A WAGE-LIMIT OVER WHICH FAMILY ALLOWANCES ARE NOT TO BE PAID. THE LATTER WOULD SPARE THE STATE FROM HAVING TO SPEND ITS SOCIAL RESOURCES ON RELATIVELY HIGH INCOME LEVELS.

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7. FIXED MINIMUM WAGE. IN AN OPEN AND COMPETITIVE ECONOMY, WAGES ARE SUPPOSED TO REFLECT THE MARGINAL PRODUCTIVITY OF LABOR. SIMPLY STATED, THE COST OF EACH ADDITIONAL WORKER IS SUPPOSED AT LEAST TO EQUAL THE VALUE OF THE ADDITIONAL CONTRIBUTION HE MAKES. WITH THE SETTING OF A MINIMUM WAGE, THE ONLY ALTERNATIVE, ARGUES ODEPLAN, OPEN TO A WORKER WHOSE CONTRIBUTION IS LIKELY TO BE WORTH LESS THAN THE WAGE MANDATED BY LAW, IS UNEMPLOYMENT OR THE MINIMUM EMPLOYMENT PLAN (MEP) AT SUBSTANDARD WAGES. EVEN IF CHILEAN WORKERS WOULD

RATHER WORK FOR LESS THAN BE UNEMPLOYED OR ON THE MEP, THEY ARE NOT ALLOWED TO BY LAW. ODEPLAN PROPOSES TO ELIMINATE THE MINIMUM WAGE, AS A FIRST STAGE, FOR ALL WORKERS OF LESS THAN 23 YEARS OF AGE AND MORE THAN 65, SINCE THESE ARE THE CATEGORIES MOST AFFECTED BY UNEMPLOYMENT.

8. THE LAW OF JOB PROTECTION (LEY DE INAMOVILIDAD). ODEPLAN CONSIDERS THIS LAW TO BE MOST INHIBITING TO ANY FUNDAMENTAL INCREASE IN THE EMPLOYMENT LEVEL. DESIGNED TO PROTECT THE WORKER AGAINST DISMISSAL OR REDUCTION OF WAGES, IT HAS TURNED INTO A BARRIER TO ENTRY INTO THE LABOR MARKET. ODEPLAN GOES ON TO ARGUE THAT THE EMPLOYER, THROUGH THIS LAW, IS MADE ESPECIALLY AWARE OF THE LEGAL AND FINANCIAL PROBLEMS HE MIGHT HAVE TO FACE IN ANY FUTURE FIRING OF WORKERS. HE IS THEREFORE RELUCTANT TO CHOOSE A PRODUCTION PROCESS WHICH IS LABOR INTENSIVE. SINCE 1966, WHEN THE LAW CAME INTO EFFECT, ODEPLAN ESTIMATES THAT 6 PERCENT OF ALL UNEMPLOYMENT IS DUE TO THE SUBSTITUTION OF CAPITAL FOR LABOR, WHICH IN TURN RESULTS FROM LEGAL JOB PROTECTION.

9. ODEPLAN'S PROPOSALS WILL ALSO CONTAIN SOME MEASURES RELATIVE TO SPECIFIC PRODUCTION SECTORS, WHICH WILL GENERATE INDIRECT EFFECTS ON UNEMPLOYMENT. THESE ARE: 1) THE AUTHORIZATION FOR ESTABLISHING AGRICULTURAL CORPORATIONS. THUS, INVESTMENT IN AGRICULTURE WILL BE EASED WITH THE CONSEQUENT GENERATION OF NEW JOBS. 2) THE ELIMINATION OF THE 80 HECTARES RESTRICTION FOR LAND HOLDINGS. 3) THE ELIMINATED OFFICIAL USE

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NATION OF EXISTING RESTRICTIONS TO NEW ENTRANCE IN THE TRANSPORTATION AND THE COMMUNICATIONS SYSTEMS AS WELL AS THEIR GENERAL OPERATION. THESE WILL BE DISCUSSED IN SEPARATE MESSAGES.
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